Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Nakano | Analyst: LuAnna Hass | Bill Number: AB 273

Related Bills: See Prior Analysis | Telephone: 845-7478 | Amended Date: May 9, 2001

Attorney: Patrick Kusiak | Sponsor:

SUBJECT: First-Time Homebuyer Mortgage Insurance and Funding Fee Deduction

X DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as amended April 16, 2001.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended ____________________.

X FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ____________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED APRIL 16, 2001, STILL APPLIES.

____ OTHER - See comments below.

SUMMARY

This bill would allow a first-time homebuyer to claim the amount paid for specified mortgage insurance or funding fees as a deduction.

SUMMARY OF AMENDMENT

The May 9, 2001, amendments resolved the department's implementation considerations by accepting the amendments suggested by the department. The amendments would:

- Define various terms for purposes of the deduction allowed by this bill,
- Allow the deduction for tax years beginning on or after January 1, 2001, and before January 1, 2008,
- Allow the deduction for taxpayers who own a principal residence located in California,
- Allow the deduction as a miscellaneous itemized deduction that would not be subject to the 2% floor,
- Remove the limitation requiring the deduction to cease when 20% of the mortgage principal has been paid,
- Add a repeal date of December 1, 2008, and
- Require the Franchise Tax Board to report to the Legislature on the utilization of the deduction by January 1, 2007.

Except as discussed in this analysis, the department's analysis of the bill as amended April 16, 2001, still applies.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	05/11/01
____ N	____ OUA	X PENDING		

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective upon enactment and operative for taxable years beginning on or after January 1, 2001, and before January 1, 2008.

POSITION

Pending.

IMPLEMENTATION CONCERNS

This bill would require the department to report to the Legislature on the utilization of this deduction. Reporting this information would be difficult because income tax statistics gathered by the department do not include information regarding specific adjustments on the Schedule CA, California Adjustments. Taxpayers would claim the deduction provided in this bill as a specific adjustment on Schedule CA. The taxpayer enters the total subtractions from, and the total additions to, federal adjusted gross income to the front of Form 540, California Income Tax Return, from the Schedule CA. The department then enters these amounts from the Form 540 into the computer system. Currently, the department does not input the Schedule CA amounts into the computer system; it only enters some of the figures from Schedule CA that are transferred to Form 540. Furthermore, although the department does accumulate and gather statistics related to income tax, it is believed that if this deduction was included in the sampling, it would not produce reliable statistics since first time homebuyers are a small sub-population.

Once the implementation consideration is resolved, implementing this bill would not significantly impact the department's programs and operations.

FISCAL IMPACT

The department's costs to administer this bill cannot be determined until the implementation concern has been resolved but are anticipated to be significant.

ECONOMIC IMPACT

Tax Revenue Estimate

Based on limited data and assumptions discussed below, this bill would result in the following revenue losses under the PITL.

Estimated Revenue Impact of AB 273 As Amended 5/9/01 [$ In Millions]		
2001-02	2002-03	2003-04
-$41	-$43	-$45

The bill would be effective with taxable years beginning on or after January 1, 2001, and before 2008, with enactment assumed after June 30 of this year.

Tax Revenue Discussion

The May 9, 2001, amendments increased revenue losses by an additional $36 million, $38 million, and $40 million in the initial three years over the estimate in the previous analysis. Projected revenue losses increased primarily due to deleting the 2% of AGI deduction threshold. As amended, nearly all premiums paid by taxpayers for PMI, MIP, and funding fees would be deducted as an itemized deduction on the state tax return.

The amount of deductible mortgage insurance premiums and marginal tax rates of taxpayers with deductible premiums would determine the revenue impact of this bill.

Estimates are based on projected premiums paid by first-time homebuyers in California relative to new and existing loans (as applicable) for conventional, FHA, and VA loans. For 2001, total premiums are projected at roughly $810 million. Premiums that would be deducted on state tax returns are projected at $680 million. Applying an average marginal tax rate of 6% and annual growth of 5% derives estimates above.

Except for the paragraph explaining revenue effects of the FHA mortgage insurance premium (MIP), the revenue discussion in the analysis for the April 16, 2001, amendments still applies.

Effective with loans closing on or after January 1, 2001, FHA requires an up-front premium of 1.5% of the mortgage amount and is paid at closing or financed into the mortgage. Estimates assume that the up-front premium is considered paid at closing. In subsequent years, a borrower would be charged a monthly premium equal to 0.5% of the mortgage amount. For new loans, six months of monthly premiums were included to reflect a mid-year home purchase date. The monthly premium also was used as a proxy to estimate annual premiums paid by qualifying first-time homeowners with existing FHA loans.

LEGISLATIVE STAFF CONTACT

LuAnna Hass	Brian Putler
Franchise Tax Board	Franchise Tax Board
845-7478	845-6333